



ISSUES MONITOR

TOBACCO MERCHANTS ASSOCIATION OF THE U.S. FOUNDED 1915

TOBACCO IN THE CONTEXT OF CHANGING RULES FOR INTERNATIONAL TRADE

When John Rolfe wrote to the King of England in 1616 that tobacco was "the principall commoditie the colony for the present yieldeth," he was talking about much less than the \$2.84 billion in exports and the \$859 million in imports generated by trade in tobacco leaf and tobacco products in 1982, even in deflated dollars. Few industries can claim the 17th Century significance of tobacco in world trade; few industries are so dependent on growth in world markets for sustained domestic growth; few industries are as affected by current changes in the rules governing U.S. and world trade.

The following legislative initiatives and issues figure prominently on the Congressional scene:

- **Reciprocity** -- To insure continued expansion of reciprocal market opportunities for goods, services and investment by allowing trade retaliation against individual countries (The International Trade and Investment Act--S.144 passed Senate)

- **Domestic Content** -- To require a certain amount of U.S. produced products in domestically sold goods, especially automobiles, though Mondale and the Democrats appear to want to go further.

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MINORITY INTERESTS FOR MAJORITY POWER

What do the following have in common?

American Cancer Society
American Lung Association
National Taxpayer's Union
American Heart Association
Action on Smoking and Health
Public Citizen's Congress Watch
Council for a Competitive Economy
American Public Health Association
United Tobacco Growers Association

Answer: They all support the dismantling of the Tobacco Support Program, as represented in House legislation introduced by Tom Petri and Senate legislation introduced by Jake Garn. While the top 8 are motivated largely by a desire to get "the government out of the tobacco business...and save the taxpayers tens of millions of dollars every year," as Garn puts it, the **United Tobacco Growers**, though in principle in favor of price support, would rather have no program than continue to pay what they view are outrageous leasing rates for the right to grow tobacco.

But if Rep. Charlie Rose (D-NC) is going to be able to wrench-out major changes in the price support and allotment components of the Program, changes he recognizes are necessary, his non-farming allotment-owner constituents, who out-number farmers 4 or 5 to 1, will have to feel the heat of possible loss of the entire Program.

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• **Department of International Trade** -- To consolidate trade related functions from a number of Departments, in order to place U.S. trade policy in a more competitive position.

• **Caribbean Basin Initiative** -- To provide one-way free trade for 28 beneficiary countries; and the effort to exempt a number of products from the free trade provisions.

• **Foreign Corrupt Practices Act** To loosen the restrictions, faced almost uniquely by American multinationals, on their ability to compete in certain markets that do not share U.S. morals.

• **Export Administration Act** --To restrict transfers of strategic technology to Communist countries by our trading partners through the threat of other product retaliation.

• **Ex-Im Bank Funding & Charter** -- To increase the level and kind of funding available for foreign purchases of U.S. products.

• **Domestic International Sales Corporations** -- To reorganize the form of tax benefit currently available to DISC's, to bring them into conformity with GATT provisions on subsidies.

• **Generalized System of Preferences** -- To reauthorize the countries and products that benefit from reduced tariffs.

• **Creation of a Super-Gatt** -- To enable a selection of countries, that wish to expand their trade through a lowering of barriers, to proceed with such negotiations outside of the traditional GATT context.

• **Increased IMF Funding & Foreign Aid** -- To provide LDC's with sufficient resources to maintain viable economies, in part for developed country exports.

• **Agricultural Export Subsidies** -- To require that actions taken by foreign countries do not impact severely on U.S. agricultural exports.

• **Mandate CCC Commodity Sales** -- To require the export sale and/or barter of agricultural commodities held by the Commodity Credit Corporation

• **Export P.I.K.** -- To enable U.S. farmers to benefit from an expanded payment-in-kind program and to enable the U.S. government to unload unwanted commodities.

• **Increased Tariffs & Quotas** -- To shore up the agricultural economy by establishing quotas for imports or increasing duties.

TOBACCO IN THE TRADE POLICY DEBATE

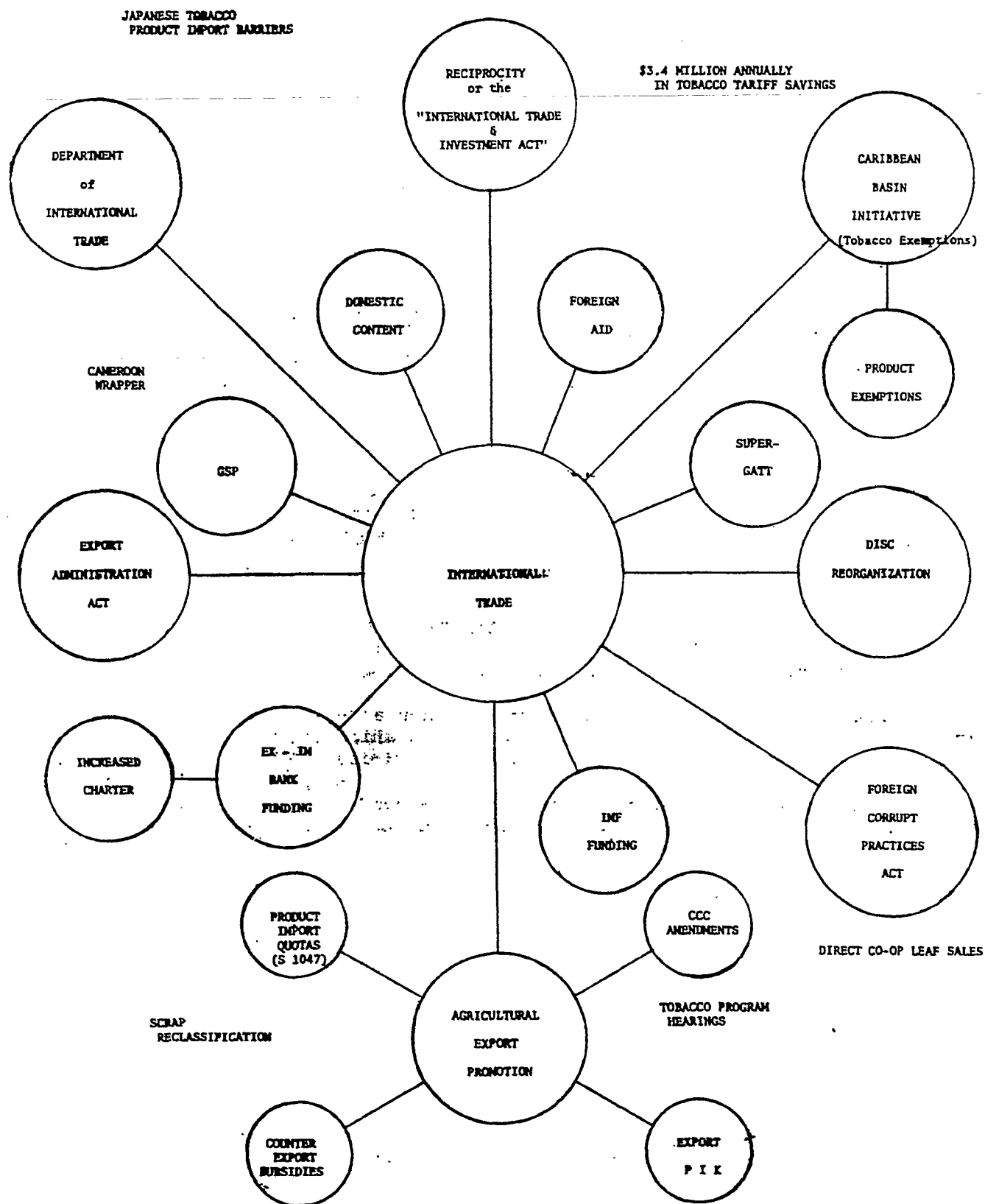
While the proposed trade policies above do not uniquely affect trade in tobacco each of these could have a substantial economic impact. The following specific tobacco trade issues should be understood in the context of these broader trade issues:

• **Proposed Reclassification of Scrap Tobacco** -- An effort to increase the tariff on certain tobacco imports by changing the classification of threshed tobacco from the nsfp category at 17.5 cents per pound to the higher stemmed cigarette leaf category. The Customs decision, the second time in 3 years that a decision was called for, is expected shortly (see Special Report 83-3 once the decision is announced).

• **Export P.I.K. For Tobacco** -- At the Tobacco Support Program hearings in Washington, April 13-15, one of the questions that Rep. Rose asked those testifying was whether they thought that tobacco should be included either in the current Payment-in-Kind Program or some sort of export oriented PIK Program. Though most of the witnesses

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International Trade Issues & Tobacco



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argued that under the No-Cost legislation tobacco growers and not the Commodity Credit Corporation owned the surplus tobacco, making the PIK type of Program unsuitable for tobacco, many argued the need for favorable government support for tobacco leaf exports.

• **Direct Sales by Flue-Cured Stabilization** -- Technically, the Flue-Cured Stabilization Cooperative has been given the authority to compete with leaf dealers in foreign markets. The USDA proposed this authorization in November and a court ruling in April against restraining such sales means that the CO-OP could sell to foreign buyers in foreign markets. Prior to 1982's crop, the CO-OP was able to borrow money at highly favorable, subsidized interest rates. Direct sales of this old-crop tobacco might be considered a quasi-governmental dump of an agricultural commodity, depending on the price asked. Since growers are now assuming the cost of running the CO-OP, Stabilization has an incentive to unload the old-crop, as indicated indirectly by a Stabilization spokesman at the hearings.

• **Generalized System of Preferences** -- Several forms of tobacco leaf, most significantly cigar wrapper, are imported duty-free from beneficiary countries under the GSP. Though GSP reauthorization would be required, effective in 1985, this important trade legislation is beginning to get a hearing now in connection with the Caribbean Basin Initiative, though no formal legislation has been introduced. Meanwhile, the definition of "imported directly" under the GSP is likely to be changed to allow Cameroon Wrapper that is sold in bond in Paris to qualify for duty-free treatment.

• **Caribbean Basin Initiative** -- We have estimated that the cigar

industry would gain about \$2 million annually and the cigarette leaf industry about \$2.4 million, in reduced tariffs, if the one-way free trade provisions of the CBI are enacted (see Special Report 82-7). This calculation is based solely on current trade flows and does not account for investment that might be induced to take advantage of the one-way free trade provisions. It also assumes that efforts by tobacco-state Congressmen to have tobacco exempted from the provisions of the CBI -- something that Rep. Hopkins attempted unsuccessfully last year and something that he has indicated he will attempt this year -- will remain unsuccessful.

• **Import Barriers in Japan** -- Much of the incentive for both the reciprocity legislation and the Congressional initiatives to improve the export performance of U.S. agriculture, comes from what are viewed as the highly restrictive trade policies in Japan. In addition to beef, citrus, and a number of other products, cigarettes are high on the list of those products for which greater Japanese penetration is sought. We have estimated that the U.S. tobacco grower would have had a net gain of \$705 million in revenue and a net gain of 675 million pounds of tobacco sold, during the period 1972-81, if U.S. cigarette exporters had had 20% of the Japanese market (see Special Report 83-1).

• **Health & Safety Non-Tariff Barriers** -- At the April Tobacco Support Program hearings, two witnesses argued that tobacco produced abroad is not required to meet the same stringent standards of production as U.S. tobacco. They argued that the USDA fertilizer and pesticide regulations unfairly increase their cost of production and that Customs does not apply the same standards to imports. This argument is the flip-side of the MH Residue problem that
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has confronted U.S. tobacco exports,
especially to West Germany.

INTERNATIONAL TRADE & INVESTMENT ACT

The best kept secret surrounding media coverage of the Senate debate on the withholding of interest and dividend income, is the Senate-passed legislation that received Sen. Kasten's withholding amendment, S. 144, "The International Trade and Investment Act." In addition to authorizing the President to take action against individual countries, that have trade policies that "unreasonably restrict U.S. commerce" -- the so-called reciprocity provision -- this Act reflects the increasingly protectionist zeal of Congress along with the pragmatism that has forced "fair trade" realism to supplant "free trade" ideology.

MALAWI BURLEY MARKET COLLAPSES

During the week of April 25, orderly marketing of the Malawi burley crop, totalling 45 million kilograms, or about 66% larger than last year, collapsed under the pressure of excess supply and reduced prices. Government, growers and leaf dealers are working cooperatively to develop a temporary support mechanism to permit the resumption of orderly marketing, an industry source reports.

CORRECTION

Re-reading an article in the USDA National Food Review (reported in IM Vol.4, No.1), it is clear that they referred to cigarette advertising as having an effect on consumer choices among types of cigarettes, rather than total consumption.

CIGARETTE BRAND ACTIVITY

CAMEL, SALEM, VANTAGE, WINSTON 12-pack - RJR - Testing in Detroit & Tampa packages of 12 cigarettes specifically for vending machines designed to bring per-pack cost below \$1.

DECADE - L&M - Withdrawn.

DJARUM & KOTAK (kreteks) - Imp. by G.A. Georgopulo & Co.; made by P.R. Djarum-Kudus (Indonesia) - Clove.

GPC APPROVED FILTER CIGARETTES Ultra Lights - dist. by Generic Products Corp. (Fort Worth) - Filter, king size, regular & menthol flavor, low tar, soft pack - Sold in Medi-mart Drug.

LUCKY STRIKE FILTER LIGHTS - American - Filter, king size, regular flavor only (no menthol), soft & hard pack - Distribution extended to West Coast, covering 3/4 of country.

MAX SLIM LIGHTS 100s - Lorillard - Filter, 100mm, regular & menthol flavor, low tar, hard pack - Expanded distribution to Denver in February.

MINT BIDIS - Imp. from India by George Bensen & Son - Herb cigarette.

PLAYERS - PM - Filter, king size & 100mm, regular flavor only at start, menthol added later, low tar, hard pack - Testing started February 28 in Portland, ME & Phoenix; national launch April 18; tested with RAFFLES.

RAFFLES - PM - Filter, king size & 100mm, menthol flavor only, low tar, hard pack - Testing started February 28 in Atlanta & Rochester; same packaging & advertising approach as PLAYERS (above); disappeared as separate brand, but renamed PLAYERS menthol.

JBR MEDIUM TURKISH - Imp. by James B. Russell, Inc. - Turkish blend.

SATIN - Lorillard - Filter, 100mm, regular & menthol flavor, low tar - National launch January.

THREE CASTLES - Imp. from England by James B. Russell, Inc. - Non-filter, pure Virginia tobacco.

TMA

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